



Commissioner of the Revenue Norfolk, Virginia



Sharon M. McDonald
Commissioner of the Revenue

October 2004

Dear Norfolk Citizen:

It is my pleasure to present to you the 2004 Annual Report for your Commissioner of the Revenue Office.

It is hard to believe that I write this report in my seventh year of service to our citizens and business community as Commissioner of the Revenue. We have seen remarkable changes, not only in this office but also throughout our city. There has been a complete transformation of our downtown and the beginning of one in Ocean View. Our City is coming alive with an influx of new people, new businesses and a new curiosity about life in the New Norfolk. It has been a privilege to share this growth with you from my very unique perspective as your Tax Commissioner.

Over the past seven years my office has identified and generated nearly \$30 million in excess revenue. This revenue is not due to any increase in taxes; rather, it is generated from the successful efforts of a trained and capable staff that ensure that all Norfolk taxpayers pay their fair share and not a penny more.

We continue to maintain our primary focus on customer service. Therefore each of our service units is designed using the "team" concept. This Annual Report lists the Team Leader of each unit along with the responsibilities of that team. If, after reading this report you have any questions about a specific team, feel free to contact that Team Leader by e-mail or telephone.

Personal Property

- The total number of Commercial boat units increased by 2%. However, the per unit revenue actually declined because the mix of vessels changed between FY03 and FY04
- During FY 03, the City of Virginia Beach made the decision to eliminate vehicle decals. This decision caused us to reevaluate our policies on how we handle the non-renewing decal accounts here in Norfolk. This has lead to an increase in the number of open accounts and has required the need for increased attention by the Personal Property Team on these non-renewing accounts. It has also lead to increased revenue because of the aggressive discovery policies of the Personal Property Team.
- There are several Residential Parking Permit Zones that saw declines in the number of permits issued. We are working with the City's Parking Division to ensure timely action be taken against non-renewing violators so that the residents in the zones are properly served.

Business Tax

- Business Licenses issued to new businesses increased by 5%, resulting in Business License tax revenues of nearly \$20 million.
- The tables reflect a decline in the number of Machinery and Tool (M&T) accounts (property taxes paid by manufacturers). This decline is due to the reclassification of certain businesses to non-manufacturing and, thus, the movement of these assets from M&T to Furniture, Fixtures & Equipment (FF&E) as opposed to the closure of certain businesses. Overall, the combined number of accounts increased by 4%.
- Meal taxes continued to be an important revenue source for our city as Food and Beverage tax collection increased by 11% to \$25.5 million. Lodging taxes and Admissions taxes also enjoyed healthy growth of 9% (\$6.6 million) and 8% (\$4.5 million), respectively. Increases in our fiduciary tax revenue reflect the continuing change of our city's economy with a greater emphasis toward the service and tourism industries.
- The Cigarette tax rate increase which went into effect July 1, 2003 was reflected in a nearly \$2.9 million increase in revenue.

Special Taxes

- Utility Tax Revenues from the telecommunications industries appears to be leveling with the continued shift from landline to wireless telecommunications, which generated a modest 1% revenue growth.
- The mild winter during FY04 caused a 1% decline in consumption tax revenue.

Audit

- This team assessed nearly \$650,000 of new taxes due to in-depth audits in three primary categories:
 1. Bank Franchise Taxes
 2. Wireless Telecommunications
 3. Fiduciary Taxes
- This team was instrumental in the development and implementation of a Pilot Program with the State Department of Taxation regarding audits of restaurants. Our team performs the audit and makes the assessment for local taxes (business licensing, meals and/or property taxes). The information is then forwarded to the State Department of Taxation and an automatic assessment is made for sales and use tax and/or income tax. The City of Norfolk benefits not only from our local audit but also when the state sales tax revenue is received because of our 1% local option sales tax.

State Income Tax

- The members of the Income Tax team provided assistance to the IRS Volunteer Income Tax Assistance (VITA) program by offering free training to volunteer preparers.
- The Income Tax team also provided training for local professional tax preparers concerning updates to changes in the Virginia Income Tax code.
- We joined with the Department of Taxation and three other localities to test the new Revenue Management system, which is expected to be implemented during FY05.
- Locally we assisted over 16,000 taxpayers and processed nearly 43,000 returns.

Tax Compliance

- This team continues its “gentle” aggressive posture in ensuring tax compliance by our local business community. Delinquent business license tax collections were up 79% to \$1.5 million and monthly meals tax delinquents collected were in excess of \$500,000
- This team continues to work on Saturdays to ensure that we have an office representative available on the weekends to monitor activities that might not normally be identified during the regular workweek.
- Revenue generated from all Tax Compliance activities was nearly \$2.7 million.

Real Estate Tax Relief for Senior and/or Disabled Citizens

- This program operates out of our satellite office in the Norfolk Skills Center on 21st Street in Ghent and served over 2,700 households last year.
- During the filing season for this program (February through June) we offered our services at five (5) satellite offices throughout the City. This helped ease the application process for many of Norfolk’s senior and disabled citizens.

I take pride in our accomplishments during FY 04. My staff members and I take seriously our pledge to uphold the tax code of the Commonwealth and of our City by ensuring that we fulfill our responsibilities in a competent and professional manner. We also recognize that we are here to assist you and consider it our privilege to do so. Please continue to let us know how we can better meet your needs as our customer.

Thank you for the honor to serve as your Commissioner of the Revenue.

Very truly yours,

Sharon M. McDonald

Sharon M. McDonald
Norfolk Commissioner of the Revenue

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Commissioner of the Revenue

"Providing Superior Service and Quality to the Citizens of Norfolk"

Mission Statement

We are the chief tax assessor for the City of Norfolk.

We provide superior service and quality in the:

- ◆ Assessment of individual and business personal property;
- ◆ Issuance and renewal of business licenses;
- ◆ Administration of all fiduciary taxes;
- ◆ Evaluation of customer compliance;
- ◆ Assistance and processing of Virginia State Income Taxes;
- ◆ Investigation of inquiries and delinquent accounts; and
- ◆ Assistance with Real Estate Tax Relief.

We provide these services for the Citizens of Norfolk and to aid in the continued growth of our community.

Commissioner of the Revenue

"Providing Superior Service and Quality to the Citizens of Norfolk"

History of the Office

The primary responsibility of this office is the assessment of City and State taxes. The Commissioner of the Revenue holds office as an agent for the state, as well as the local government, and is the assessing officer on the local level for those taxes as prescribed by State law and City Ordinance.

The office of the Commissioner of the Revenue was provided for in Virginia's Constitution in 1869. By 1906, the General Assembly had made it an appointive office, to be appointed by the local court. A Constitutional Amendment in 1910, changed the appointive method to elective for a four year term. In 1926, the General Assembly reduced the number of county Commissioners to one per county, conforming to the cities, making a total of one hundred and thirty four. In 1932, the General Assembly set up the basis of compensation for Commissioners, with both the State and City participating.

Your Commissioner of the Revenue Office provides service and assistance to citizens and businesses on tax-related issues. Norfolk citizens use this office and depend on it to assist them with both State and City tax-related concerns. As a bridge between our City Council members and our State Legislators, this office serves to protect the City and the taxpayers. A key responsibility of your Commissioner of the Revenue is to keep abreast of, and to lobby for, or against, legislative issues as they impact our city's revenues.

Duties of the Office

The Commissioner of the Revenue is the Assessor of all City taxes, except Real Estate, and of certain State Taxes as outlined in Section 58.1-3100 through 58.1-3122 of the Virginia Code.

Commissioner's duties as specified by Virginia State and Norfolk City Code:

- ASSESS ALL BUSINESS AND PERSONAL PROPERTY
- CLASSIFY AND ISSUE BUSINESS LICENSES
- PROCESS STATE INCOME TAX RETURNS
- ASSESS ALL LOCAL FIDUCIARY TAXES

Commissioner's additional duties:

- 1) Administrator of Food and Beverage, Lodging, Admission, Short-Term Rental and Cigarette taxes
- 2) Administrator of Personal Property Tax Relief Compliance Program
- 3) Administrator of Senior Citizens Real Estate Tax Relief Program
- 4) Administrator of Residential Parking and Yard Sale Permits
- 5) Administrator of an audit program which, on a regular basis, evaluates, appraises, and compares all Business Licenses, ad valorem and excise taxes, and their level of compliance
- 6) Administrator of Utility, Franchise (Bank, Telephone and Cable) and Public Service Corporation taxes
- 7) Collector of Contractor Workers Compensation certifications with responsibility to forward them to the State Workers Compensation Board
- 8) Provider of tax-related statistical data to the City Council, the City Manager, and other City Offices and Departments
- 9) Watchdog of all tax-related legislation introduced into the General Assembly in order to ascertain potential impact on local tax revenues
- 10) Advisor to Norfolk legislators to the General Assembly and Norfolk City Council concerning revenue issues
- 11) Administrator of a program to conduct Manufacturer determination visits
- 12) Participant in Pilot Program for State Sales Tax - Assist the Virginia Department of Taxation in identifying unreported revenues
- 13) Participant in Statewide Telecommunications Tax uniformity study
- 14) Verify and Issue Enterprise Zone Tax credits

Tangible Personal Property Team

Rick M. Wilkins, Team Leader

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Tangible Personal Property Team Duties

- ◆ **Individual/Business Vehicles Personal Property** - Autos, trucks, motorcycles and utility trailers are assessed on a prorated basis. Proration is calculated on the actual number of months the vehicle is present in the City of Norfolk. Assessment is calculated using the National Automobile Dealers Association (NADA) "Loan" Value and taxed at the rate of \$4.00 per hundred. Personal Property Tax is payable annually on, or before, June 5th.
- ◆ **Recreational Vehicles** - Recreational Vehicles are assessed on a prorated basis using the NADA Recreational Vehicle Guide "Used" Value and taxed at the rate of \$1.50 per hundred. Recreational Vehicle property tax is payable annually on, or before, June 5th.
- ◆ **Boats*** - *Pleasure Craft* are assessed annually using the Anderson and Bugg Outboard Service (ABOS) Marine Blue Book "Low Estimated Trade-In" Value and taxed at the rate of \$.01 per hundred. *Commercial Vessels* weighing less than 5 tons are assessed using the ABOS Marine Blue Book "Low Estimated Trade-In" Value and taxed at the rate of \$1.50 per hundred. Commercial vessels weighing 5 tons or more are assessed at 60% of original cost, with a depreciation of 5% each year until reaching a minimum depreciated value of 20% of original cost. They are taxed at the rate of \$1.50 per \$100. In accordance with State & City Code, owners of commercial boats must file a listing of all vessels with this office on, or before, February 1. All boat property tax is due on, or before, June 5th.
- ◆ **Boat Decals** - Boat decals are required for all *Pleasure Craft* that operate, dock, or are stored within the City of Norfolk, or on city waters. The decal cost is based on the length of the boat as follows: decals for boats under 16' are \$10, decals for boats 16' and over are \$25. The decals go on sale March 1st and must be displayed by May 15th of each year.
- ◆ **Mobile Homes*** - Mobile Homes are assessed using the Virginia Mobile Home Appraisal Guide and taxed at the rate of \$1.40 per \$100. All Mobile Home taxes are due on, or before, June 5th.
- ◆ **Aircraft*** - Aircraft are assessed at 20% of the Aircraft Blue Book "Equipped per Base Change/Inventory" Value and taxed at the rate of \$2.40 per \$100. Aircraft taxes are due on, or before, June 5th.

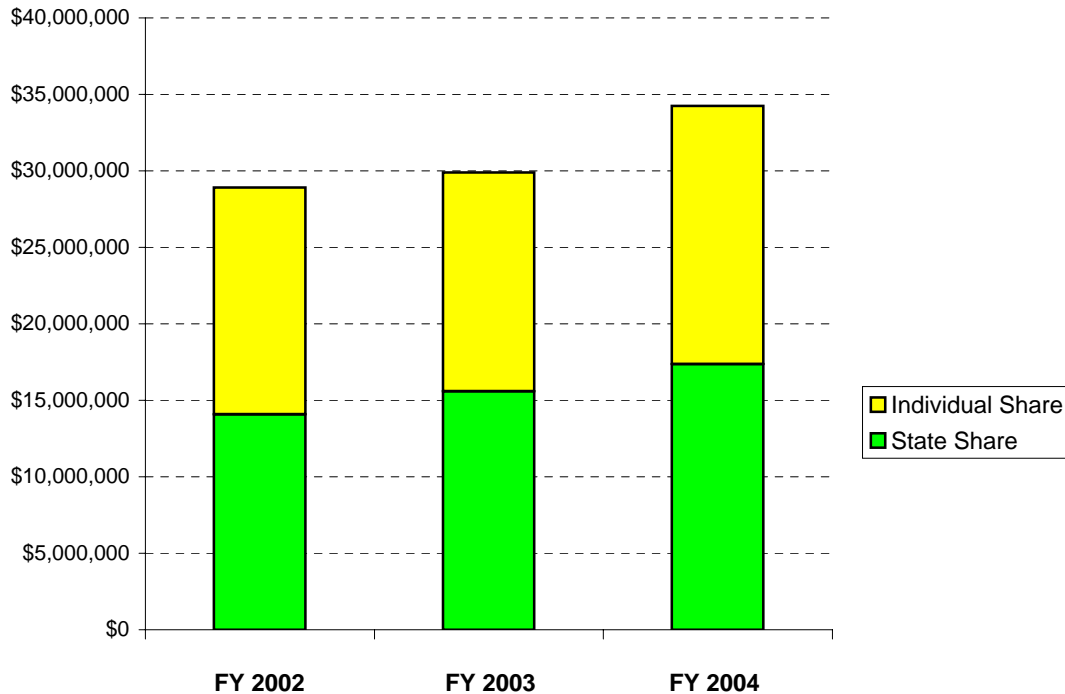
*Personal Property Taxes in this classification are not prorated.

Tangible Personal Property Team Duties - Continued

- ◆ **Rental Tax on Daily Rental Passenger Cars** - These taxes are remitted to the Department of Motor Vehicles on a monthly basis. Taxes are assessed at 8% of the Gross Rental Proceeds, for vehicles with a gross vehicle weight of 26,000 pounds or less. The DMV then forwards 4% of that amount to the City of Norfolk. Taxes are assessed at 4% of the Gross Rental Proceeds, for vehicles with a gross vehicle weight of 26,001 pounds or more, with the entire 4% forwarded to the City of Norfolk. The Commissioner's Office has the responsibility of verifying receipt and accuracy of amount remitted.
- ◆ **Residential Parking Permits** - \$10.00 per vehicle, per year; for vehicles in certain areas of the city, prorated semi-annually. One free visitor pass per address is issued annually. In addition, 30-day visitor passes are available for \$2.00 with a maximum of 2 being issued simultaneously.
- ◆ **Yard/Garage Sale Permits** - \$5.00 Yard Sale permit fee and limited to two permits per calendar year.

Tangible Personal Property - Vehicles

Chart 7 - Comparison - Tax Relief to Total Tax Due



Personal Property Tax Relief state share percentage set by Virginia Code:
2002 - 2004 70% Tax Relief

Table 7 - Summary of Tangible Personal Property Tax on vehicles

		Year			Inc/Dec	% Change
		FY 2002	FY 2003	FY 2004		
All Vehicles	Number Accts	155,929	154,356	190,629	36,273	23.50%
	Assessed	\$871,048,444	\$889,156,880	\$1,030,831,408	\$141,674,528	15.93%
	Tax Due*	\$28,921,505	\$29,887,610	\$34,252,811	\$4,365,201	14.61%
Average Tax Due per Vehicle		\$185.48	\$193.63	\$179.68		
Vehicles qualifying for Tax Relief	Number Accts	118,926	123,578	151,027	27,449	22.21%
	Assessed	\$629,618,235	\$682,615,166	\$766,017,040	\$83,401,874	12.22%
	State Share	\$14,075,320	\$15,582,506	\$17,374,167	\$1,791,661	11.50%

* Annual Tax Due after proration

Note: In 2003, the City of Virginia Beach eliminated the requirement to display a decal on vehicles within the city. This action by a neighboring locality has increased the need for additional diligent discovery on our part because some Norfolk taxpayers have attempted to not renew their city decals.

Boats - Pleasure Craft & Commercial Vessels

Chart 8a - Annual Tax on Personal Boats

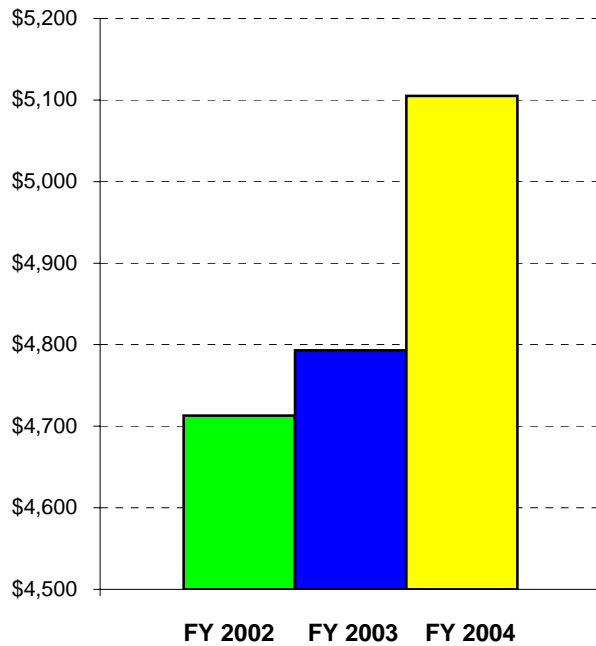


Chart 8b - Annual Tax on Commercial Boats

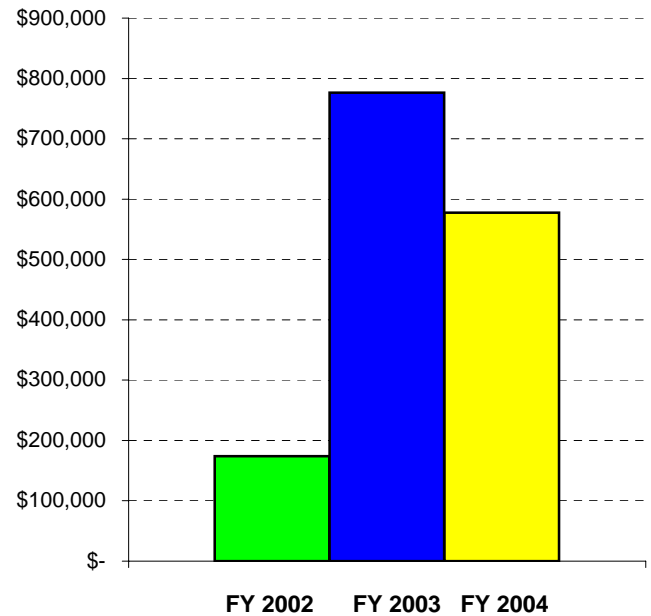


Table 8a - Annual Tax on Pleasure Craft

Pleasure Craft					
	FY 2002	FY 2003	FY 2004	Inc/ Dec	%Change
Units	5488	5317	5297	(20)	-0.4%
Assessed Value	\$ 47,887,410	\$ 50,992,957	\$ 51,565,001	\$572,044	1%
Annual Tax	\$ 4,793	\$ 5,105	\$ 5,162	\$57	1%
Average Tax Due per Boat	\$ 0.87	\$ 0.96	\$ 0.97		

Table 8b - Annual Tax on Commercial Vessels

Commercial Vessels					
	FY 2002	FY 2003	FY 2004	Inc/ Dec	%Change
Units	326	318	328	10	3%
Assessed Value	\$ 51,748,899	\$ 34,260,414	\$ 34,673,151	\$412,737	1%
Annual Tax	\$ 776,339	\$ 517,427	\$ 520,263	\$2,836	1%
Average Tax Due per Boat	\$ 2,381.41	\$ 1,627.13	\$ 1,586.17		

Note: In 2004 total units grew but the per unit revenues declined because the mix of unit types changed.

Mobile Homes & Aircraft

Chart 9a - Annual Tax on Mobile Homes

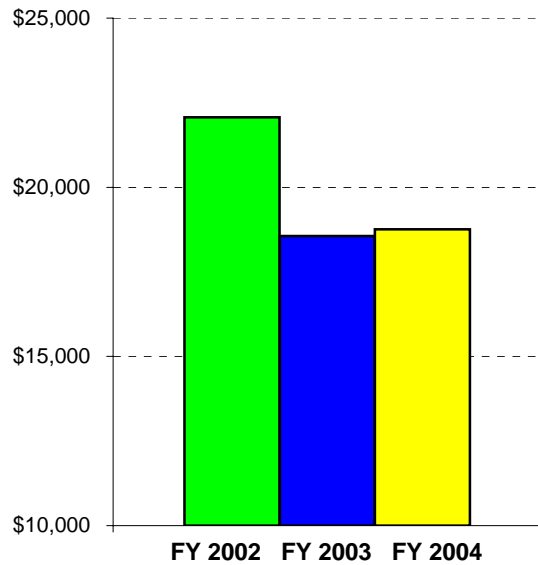


Chart 9b - Annual tax on Aircraft

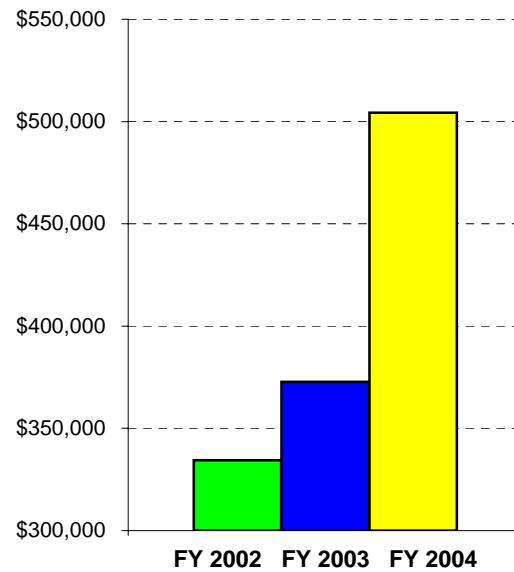


Table 9a - Annual Tax on Mobile Homes

Mobile Homes					
	FY 2002	FY 2003	FY 2004	Inc/ Dec	%Change
Units	554	440	440	0	0%
Assessed Value	\$ 1,575,846	\$ 1,325,606	\$ 1,339,630	\$14,024	1%
Annual Tax	\$ 22,066	\$ 18,559	\$ 18,758	\$199	1%
Average Tax Due per Mobile Home	\$ 39.83	\$ 42.18	\$ 42.63		

Table 9b - Annual Tax on Aircraft

Aircraft					
	FY 2002	FY 2003	FY 2004	Inc/ Dec	%Change
Units	73	79	87	8	10%
Assessed Value	\$ 13,931,713	\$ 15,533,976	\$ 21,011,604	\$5,477,628	35%
Annual Tax	\$ 334,362	\$ 372,815	\$ 504,279	\$131,464	35%
Average Tax Due per Plane	\$ 4,580.30	\$ 4,719.18	\$ 5,796.31		

Tax on Daily Rental Passenger Cars

Chart 10 - Rental Tax on daily rental passenger cars

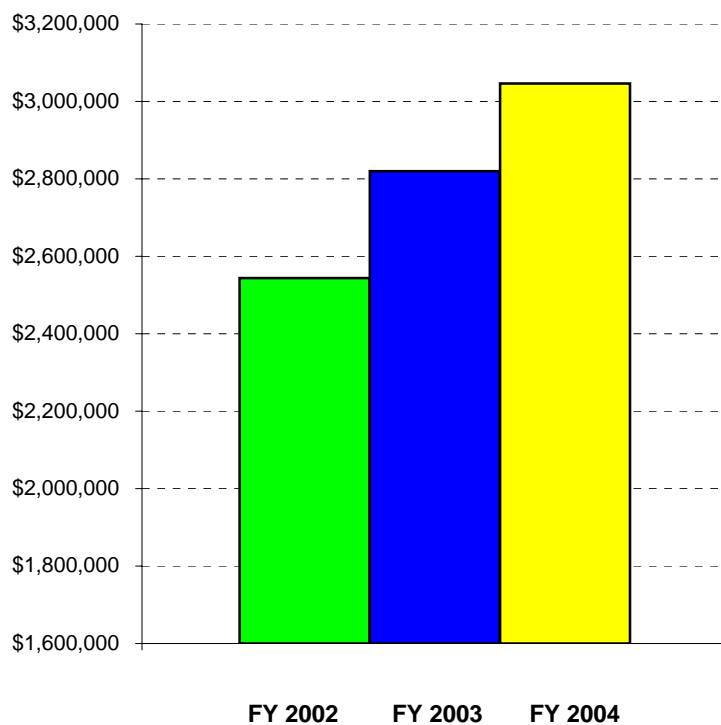


Table 10 - Revenue from tax on daily rental of passenger cars

Period	FY 2002	FY 2003	FY 2004	Inc/ Dec	%Change
Jul - Sep	\$ 459,830	\$ 766,998	\$ 810,183	\$43,185	6%
Oct - Dec	977,601	845,808	868,098	22,290	3%
Jan - Mar	552,320	632,926	786,892	153,966	24%
Apr - Jun	553,746	574,215	580,864	6,649	1%
Totals	\$ 2,543,497	\$ 2,819,947	\$ 3,046,037	\$ 226,090	8%

Residential Parking Permit Sales

Chart 11 - Percentage of Residential Parking Permit sales by zone

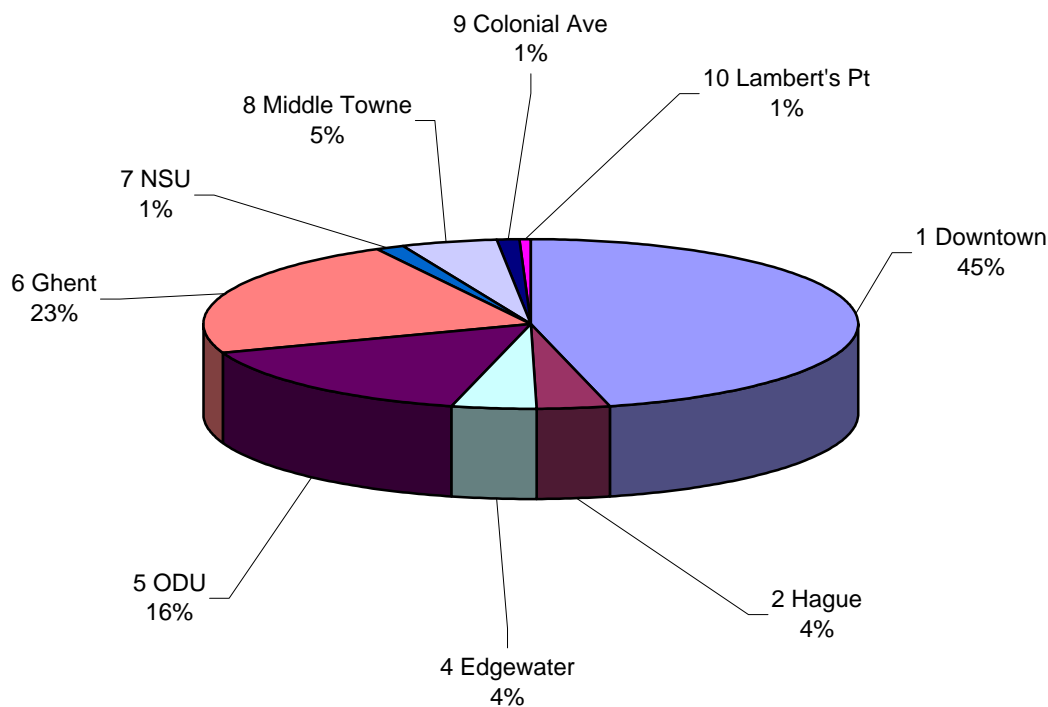


Table 11 - Residential Parking Permits Sold

Zone	FY 2002		FY 2003		FY 2004		Number Inc/Dec	\$ Amount Inc/Dec	\$ Amount %Change
	Number	Amount	Number	Amount	Number	Amount			
1 Downtown	961	\$ 8,378	1049	\$ 8,898	1187	\$10,354	138	\$ 1,456	16%
2 Hague	76	681	117	952	101	805	(16)	(147)	-15%
3 DePaul	1	10	0	0	0	0	0	0	0%
4 Edgewater	104	948	158	1,387	110	982	(48)	(405)	-29%
5 ODU	403	3,739	506	4,291	382	3,495	(124)	(796)	-19%
6 Ghent	519	4,571	709	5,566	584	5,131	(125)	(435)	-8%
7 NSU	43	364	53	414	32	297	(21)	(117)	-28%
8 Middle Towne	118	976	129	1,046	110	1,039	(19)	(7)	-1%
9 Colonial Ave	27	219	37	256	30	259	(7)	3	1%
10 Lambert's Pt	24	197	25	312	14	130	(11)	(182)	-58%
Totals	2276	\$20,083	2783	\$23,122	2550	\$22,492	(233)	\$ (630)	-3%

Boat Decal Sales

Chart 12 - Boat Decal Sales



Table 12 - Boat Decal Sales

Category	FY 2002		FY 2003		FY 2004		Number Inc/Dec	Amount Inc/ Dec	Amount %Change
	# Sold	\$Amount	# Sold	\$Amount	# Sold	\$Amount			
Boats Under 16'	1226	\$ 12,260	1230	\$ 12,300	1215	\$ 12,150	(15)	\$ (150)	-1.2%
Boats 16' to Under 28'	2084	52,100	2130	53,250	2115	52,875	(15)	(375)	-1%
Boats 28' to Under 40'	505	12,625	476	11,900	526	13,150	50	1,250	11%
Boats 40' and Over	107	2,675	106	2,650	127	3,175	21	525	20%
Military Decals	197	0	195	0	191	0	(4)	0	0%
Tax Exempt	4	0	13	0	2	0	(11)	0	0%
Decal Replacement	5	10	3	6	14	22	11	12	267%
Total	4128	\$ 79,670	4,153	\$ 80,106	4,190	\$ 81,372	37	\$ 1,266	2%

Yard/ Garage Sale Permits

Chart 13 - Yard/ Garage Sale Permits total revenue

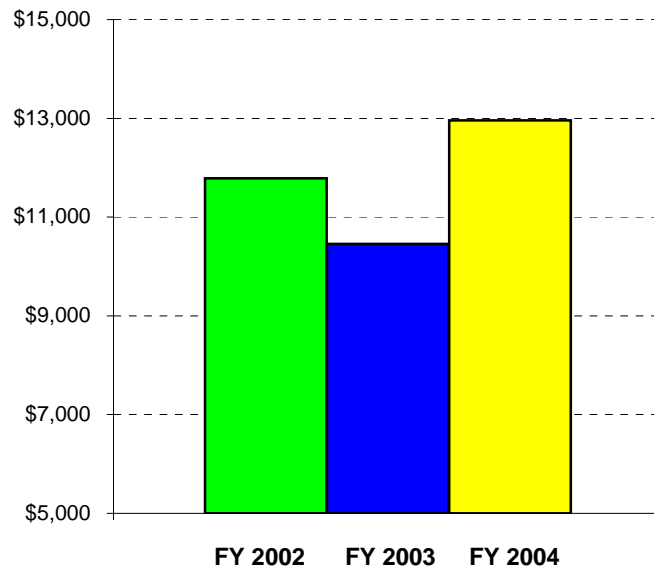


Table 13 - Yard/Garage Sale Permits issued and fees collected

	FY 2002	FY 2003	FY 2004	Inc/Dec	%Change
Permits Issued	2,357	2,088	2,592	504	24%
Fees Collected	\$ 11,785	\$ 10,460	\$ 12,960	\$ 2,500	24%

Omitted Assessments - Vehicles

Chart 14 - Omitted Assessments

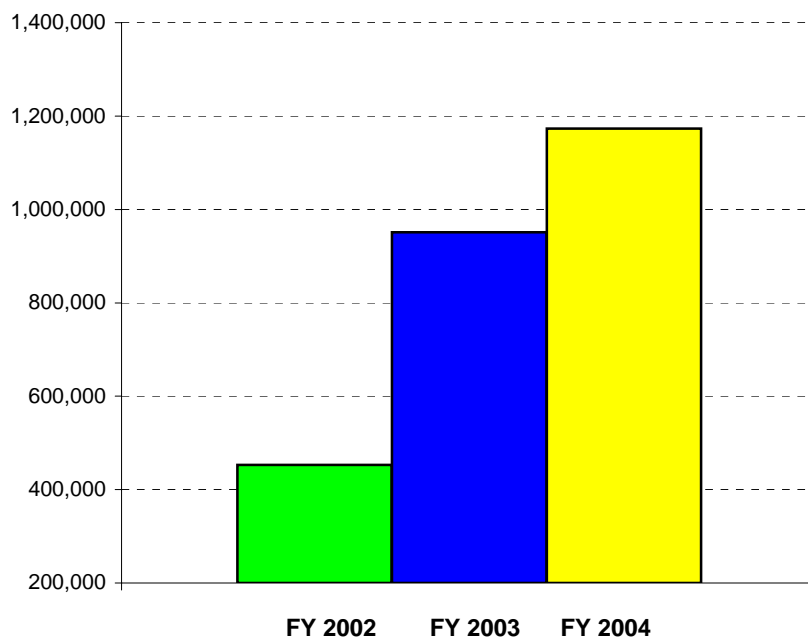


Table 14 - Tax due from Omitted Assessments

	Year			Inc/Dec	% Change
	FY 2002	FY 2003	FY 2004		
Assessment	38,996,774	50,318,471	79,072,139	28,753,668	57%
Tax	452,631	951,030	1,173,284	222,254	23%

Note: In 2003, the City of Virginia Beach eliminated the requirement to display a decal on vehicles within the city. This action by a neighboring locality has increased the need for additional diligent discovery on our part because some Norfolk taxpayers have attempted to not renew their city decals.

Business Tax

William E. Parker, Team Leader

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Business Tax Team Duties

- ◆ **Business Personal Property** - Includes all business furniture, fixtures, equipment, machinery and tools located in the City of Norfolk on January 1st. This property is assessed at 40% of the original capitalized cost (new) and taxed at the rate of \$4.00 per hundred. Machinery and Tools for manufacturers are assessed at 40% of the original capitalized cost (new) and taxed at the rate of \$4.00 per hundred. Business Personal Property tax is payable annually on, or before, June 5th.
- ◆ **City Business License** - Required of all businesses operating within the City of Norfolk. If annual gross receipts exceed \$100,000 then the following taxation rate schedule is used: Contactors \$0.16 per \$100; Retail and Restaurants \$0.20 per hundred; Service and Repair \$0.36 per hundred; Professional and Real Estate \$0.58 per hundred; Telecommunications \$0.50 per hundred and Wholesale \$0.15 per hundred plus \$50. If annual gross receipts are less than, or equal to, \$100,000 then a flat fee of \$50 is due. Business License taxes are due on, or before March 1st.
- ◆ **Food and Beverage Tax** - Food and Beverage taxes are 6 1/2% of the meal, including alcoholic beverages. This tax is collected by the business and remitted monthly to this office by the 20th of each month.
- ◆ **Lodging Tax** - Lodging taxes are 8% of the hotel/motel bill and are collected by the business. They are remitted monthly to this office by the 20th of each month.
- ◆ **Admissions Tax** - These taxes are 10% on all events held within the city that charge an admission. This tax is collected by the business and remitted monthly by the 20th of each month.
- ◆ **Cigarette Tax** - This tax is assessed by the Commissioner of the Revenue on cigarettes purchased in the City of Norfolk. A stamp must be affixed to each package of cigarettes sold in the City. The taxation rates, effective July 1, 2003, are \$.55 on a package containing 20 cigarettes, and \$.6875 on a package containing 25 cigarettes.
- ◆ **Short Term Rental Tax Personal Property** - 1% levy on rental items that are "short term" in nature (92 days or less). These items include, but are not limited to, video tapes, tuxedos, and lawn equipment. The retailer remits this tax to the city on a quarterly basis.

Business Personal Property

Chart 16a - Business Property - Furniture, Fixtures & Equipment

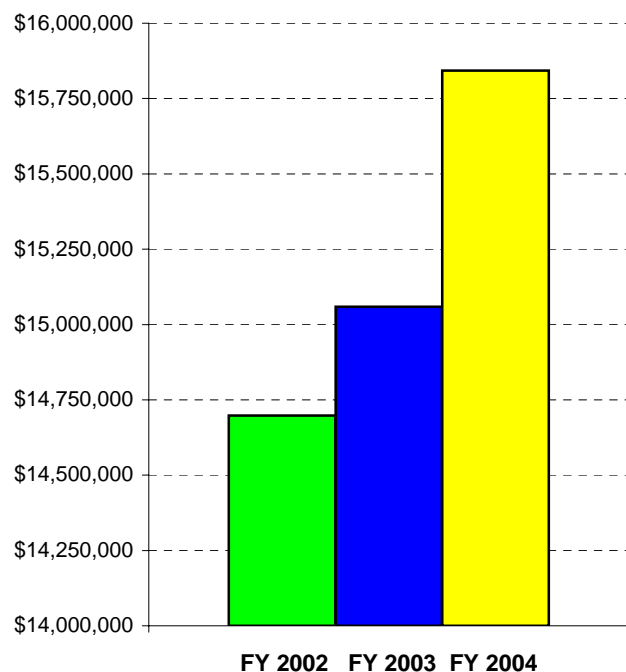


Chart 16b - Business Property - Machinery and Tools

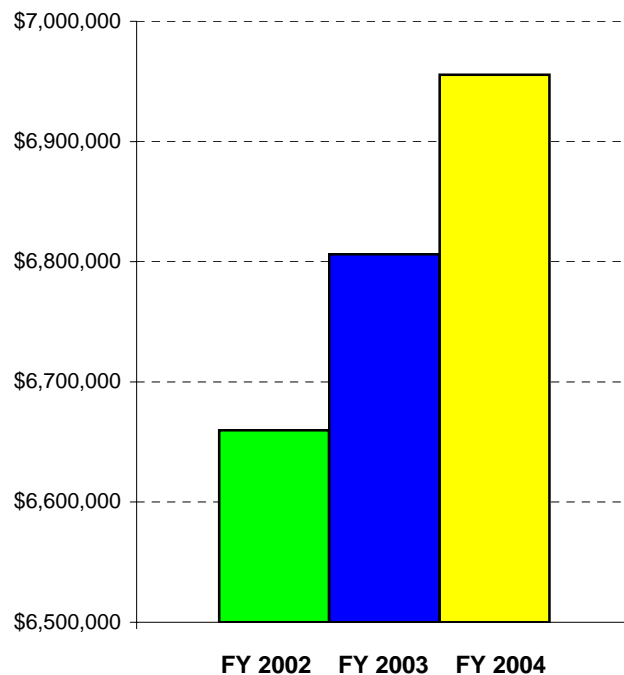


Table 16 - Annual Business Personal Property Tax

Classification		Fiscal Year			Inc/ Dec	% Change
		FY 2002	FY 2003	FY 2004		
Furniture, Fixtures & Equipment	Accounts	8989	9303	9622	319	3%
	Assessments	\$361,324,839	\$370,028,552	\$389,775,621	\$19,747,069	5%
	Tax	\$14,697,866	\$15,058,959	\$15,842,462	\$783,503	5%
Average Tax Due per Account		\$1,635	\$1,619	\$1,646		
Machinery & Tools	Accounts*	151	161	152	(9)	-6%
	Assessments	\$166,041,173	\$168,936,474	\$172,990,323	\$4,053,849	2%
	Tax	\$6,659,816	\$6,806,088	\$6,955,569	\$149,481	2%
Average Tax Due per Account		\$44,105	\$42,274	\$45,760		
Combined Total	Accounts	9140	9464	9774	310	3%
	Assessments	\$527,366,012	\$538,965,026	\$562,765,944	\$23,800,918	4%
	Tax	\$21,357,682	\$21,865,047	\$22,798,031	\$932,984	4%

*Note: The decline in the number of Machinery & Tools accounts reflects a reclassification from Machinery & Tools to Furniture, Fixtures & Equipment only, not a decrease in the overall combined accounts.

Business License - Activity by Classification

Table 17a - Business License Summary

Summary of Business License Development	FY 2002	FY 2003	FY 2004
New Businesses Opened	2,174	2,191	2,654
Total Businesses Closed	1,679	1,990	2,199
Net Increase/Decrease	495	201	455
Total # Active Businesses	11,640	12,240	12,906

Chart 17 - Business License Terminations

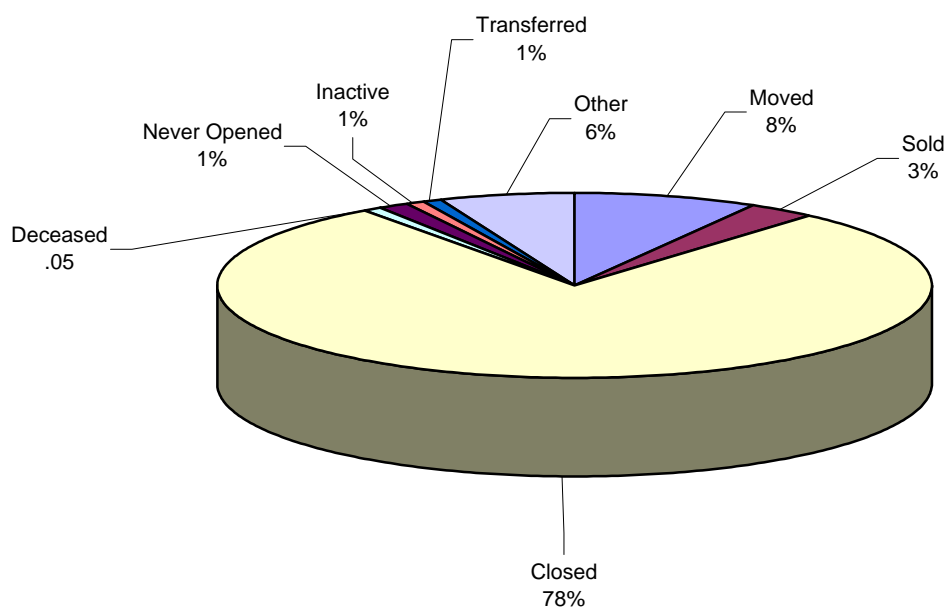


Table 17b - Business License Terminations

Business License Termination Criteria	FY 2002	FY 2003	FY 2004	Inc/Dec	% Change
Moved (businesses that have left the city)	163	173	186	13	8%
Sold (businesses that changed ownership monetarily)	50	68	65	(3)	-4%
Closed (letter received from customer stating business closed)	1253	1556	1726	170	11%
Deceased (owner of business has died)	7	15	18	3	20%
Never Opened (license obtained, but business never started)	13	40	33	(7)	-18%
Inactive (e.g. out-of-town contractors, special events vendors)	32	36	18	(18)	-50%
Transferred (ownership changed within businesses)	37	17	18	1	6%
Other	124	85	135	50	59%
Total	1679	1990	2199	209	11%

Business License - Revenue

Chart 18 - Business License Revenue by classification

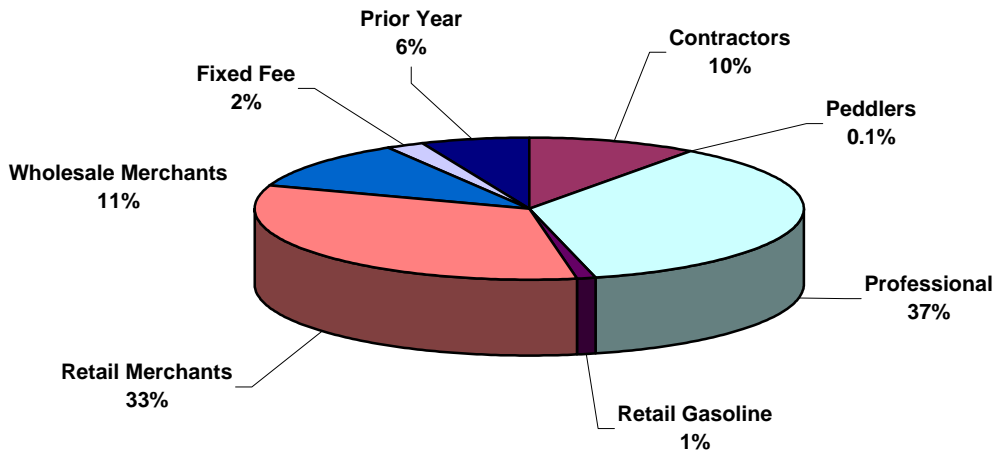


Table 18 - Business License by classification

Classification	FY 2002		FY 2003		FY 2004		Amount Inc/ Dec	Amount %Change
	Number	\$Amount	Number	\$Amount	Number	\$Amount		
Contractors	1,093	617,216	2,594	1,435,812	2,732	1,511,137	75,325	5%
Peddlers	211	10,339	88	6,646	77	4,321	(2,325)	-35%
Professional	1,328	4,912,840	1,490	5,272,049	1,552	5,495,627	223,578	4%
Retail Gasoline	100	179,278	104	158,039	95	160,272	2,233	1%
Retail Merchants	3,515	4,527,713	4,017	4,683,617	3,904	4,991,462	307,845	7%
Wholesale Merchants	580	1,678,950	647	1,543,154	617	1,709,098	165,944	11%
Fixed Fee	377	810,533	486	409,806	711	344,234	(65,572)	-16%
Prior Year	332	275,714	276	283,868	1,531	953,034	669,166	236%
All Others	5,662	5,984,077	4,848	5,441,563	4,739	5,726,910	285,347	5%
Total Revenue	13,198	\$ 18,996,660	14,550	\$ 19,234,554	15,958	\$ 20,896,095	\$ 1,661,541	9%
Less Refunds	142	182,108	256	462,886	206	708,650	245,764	53%
Net Revenue	13,056	\$ 18,814,552	14,294	\$ 18,771,668	15,752	\$ 20,187,445	\$ 1,415,777	8%

Brief Description of Classifications

Annual Tax Rate

Contractors - Businesses who bid on jobs and perform work based on their bids (Building Trades)	\$.16 per 100
Peddlers - Merchants who travel from place to place with no specific location for offering their goods and services	\$500
Professionals - Licensed individuals (Attorneys, Physicians, CPA's, etc.)	\$.58 per 100
Retail Gasoline - Service Stations	\$.20 per 100
Retail Merchants - Those who sell goods to the public (retail stores & restaurants)	\$.20 per 100
Wholesale Merchants - Distributors who sell to retailers	\$.15 per 100 plus \$50
Fixed Fee - License Fee for a one time event such as, carnivals, circuses and festivals	Varies
Prior Year - Tax collected for previous license years	Varies
Refunds - Issued for businesses: moving from Norfolk, resulting from an audit, reconciliation of taxpayer and/or Commissioner of Revenue errors.	Varies
All Others - Business Services	Varies

Food and Beverage Tax & Lodging Tax

Chart 19a - Food and Beverage Tax

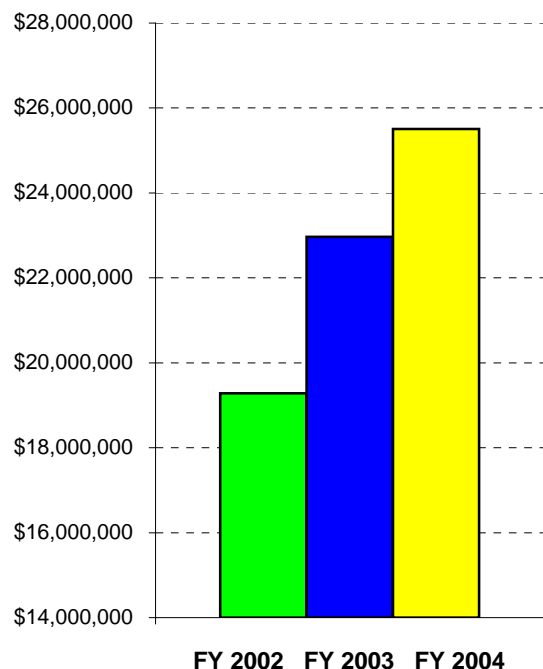


Chart 19b - Lodging Tax

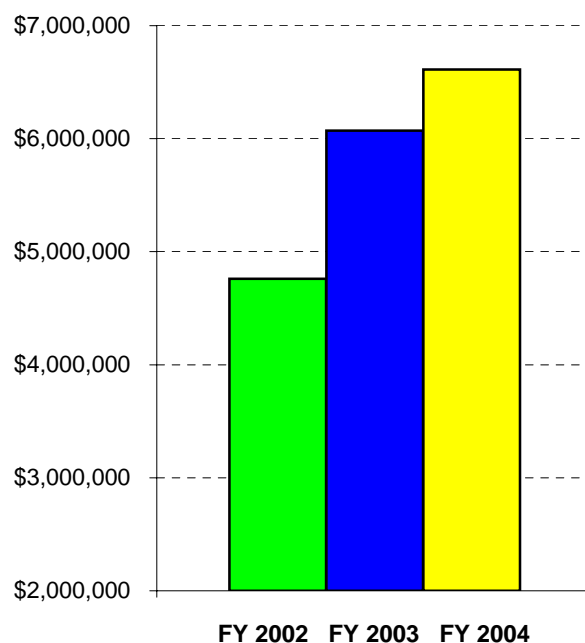


Table 19a - Revenue from Food and Beverage Tax*

	FY 2002	FY 2003	FY 2004	Dollars Inc/ Dec	% Change
Businesses Reporting	833	865	904	39	5%
Tax Remitted	\$ 19,282,010	\$ 22,967,094	\$ 25,504,255	\$ 2,537,161	11%

Table 19b - Revenue from Lodging Tax*

	FY 2002	FY 2003	FY 2004	Dollars Inc/ Dec	% Change
Businesses Reporting	52	53	54	1	2%
Tax Remitted	\$ 4,760,373	\$ 6,071,506	\$ 6,612,810	\$ 541,304	9%

*Note: The Food and Beverage tax rate increased July 1, 2002 from 5.5% to 6.5%, the Lodging tax rate also increased July 1, 2002 from 7% to 8%. These additional funds are designated for a group of special projects as follows: to set aside money for a major public facility, improvements to Scope, improvements to other civic facilities, site preparation for the new facility, and challenge grants to partner organizations.

Admissions Tax

Chart 20 - Admission Tax from Scope, Nauticus, Harbor Park, and all other sources

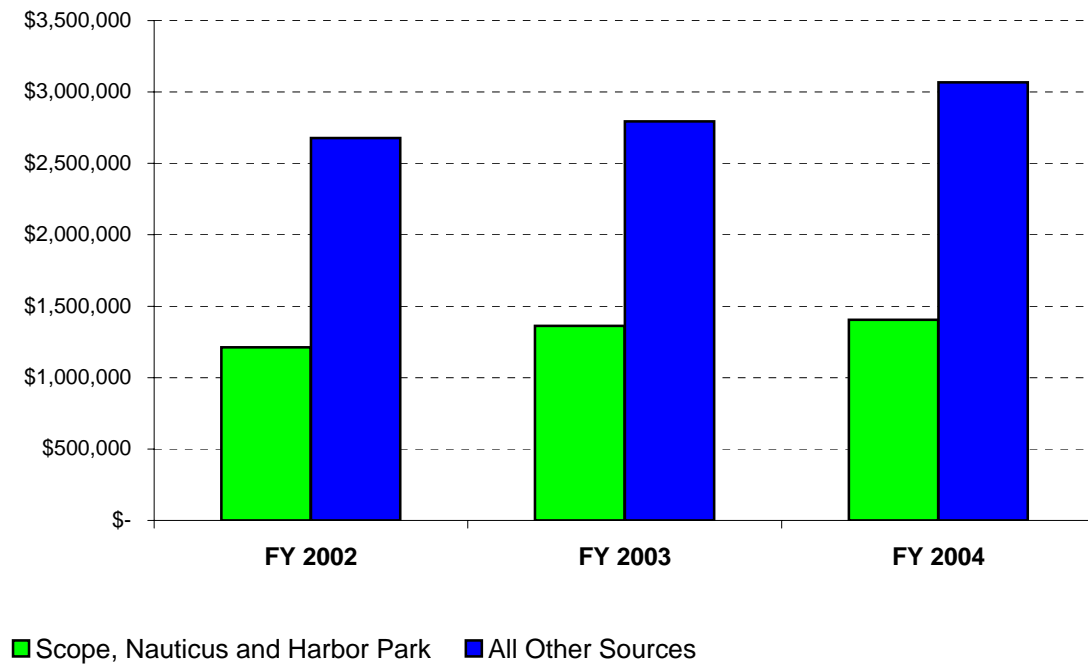


Table 20 - Admissions tax from Scope, Nauticus, Harbor Park, and all other sources

	FY 2002	FY 2003	FY 2004	Dollars Inc/ Dec	% Change
Scope, Nauticus and Harbor Park	\$ 1,211,338	\$ 1,361,590	\$ 1,404,083	\$ 42,493	3%
All Other Sources	2,676,893	2,794,042	3,068,358	\$ 274,316	10%
Total	\$ 3,888,231	\$ 4,155,632	\$ 4,472,441	\$ 316,809	8%

Cigarette Tax

Chart 21 - Cigarette Tax Revenue

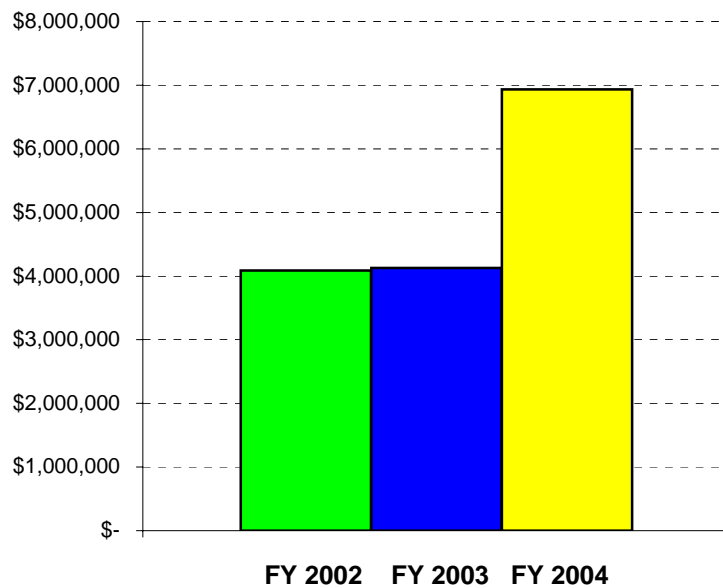


Table 21 - Revenue from Cigarette Tax*

	FY 2002	FY 2003	FY 2004	Dollars Inc/ Dec	% Change
TOTAL	\$ 4,088,387	\$ 4,126,702	\$ 6,933,692	\$ 2,806,990	68%

*Note: The Cigarette Tax rates increased July 1, 2003 from \$.30 to \$.55 for a package containing 20 cigarettes, and from \$.375 to \$.6875 for a package containing 25 cigarettes.

Short Term Rental Tax

Chart 22 - Short Term Rental Tax

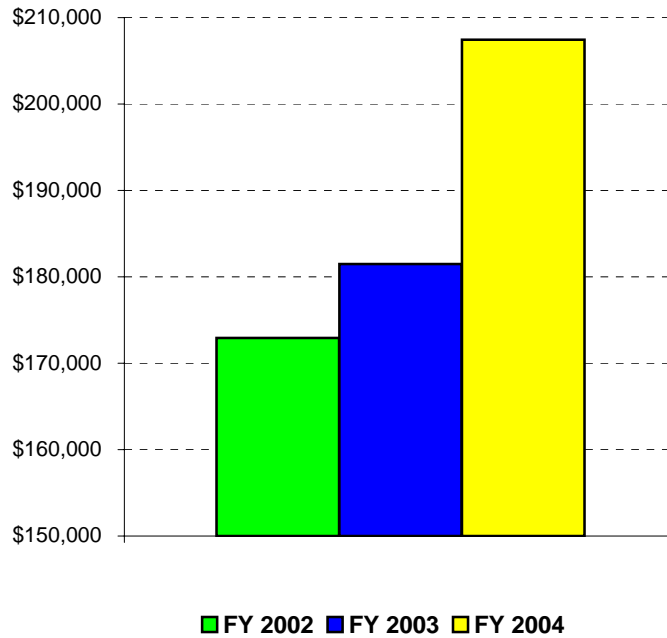


Table 22 - Short Term Rental Tax

Quarter	FY 2002	FY 2003	FY 2004	Dollars Inc/ Dec	% Change
TOTAL	\$ 172,928	\$ 181,474	\$ 207,426	\$ 25,952	14%

Special Taxes - State & City

Joe Van Landingham, Business Manager & Special Tax Coordinator

Phone: 441-2271 email: joe.vanlandingham@norfolk.gov

Special Taxes - State & City Duties

- ◆ **Bank Franchise Tax** - This tax is imposed on banks with principle offices in Norfolk. The tax is based on the percentage of deposits through the principle office and/ or branches located in Norfolk as of January 1. Virginia Code allows for the maximum tax not to exceed 80% of the state bank franchise rate, which is \$1.00 per each \$100 of net capital imposed. The tax is due annually on or before June 1st.
- ◆ **Franchise Tax** - This tax is paid in lieu of a right-of-way tax, granting easement and access. It allows use of city property for installation of physical plant, i.e., utility lines.
 - Bell Atlantic - This tax is due annually on or before March 1st. It is assessed at 3% of gross revenue.
 - Cox Cable - Beginning in FY 03 this tax is due on or before March 1st. It is assessed at 5% of gross revenue.
- ◆ **Public Service Corporation** - Taxes are imposed on public service corporations such as utility and railroad companies. These rates are set by the Virginia General Assembly and monitored by the State Corporation Commission. The Commissioner of the Revenue is responsible for verification of taxable assets and for classifying those assets in accordance with the asset type. The real property taxation rate is \$1.40 per \$100 and the personal property taxation rate is \$4.00 per \$100.
- ◆ **Utilities** - Utility taxes collected during each calendar month are reported, and paid, by each utility company on or before the 27th day of the second month following collection. Electric and Gas rates changed as the result of the deregulation of the electric and natural gas utility industries as provided by the Virginia Deregulation Act(s) of 1999 and 2000. Effective January 1, 2001, electric and gas companies base the amount of the utility tax on kilowatts per hour of electricity (kWh) and cubic feet of natural gas (CCF) consumed, as applicable. The schedule of taxation rates for utility companies is as follows:

Special Taxes - State & City Duties

Utilities - Residential

Electric - \$1.75 + .016891 per kWh not to exceed \$3.75 per month
Natural Gas - \$1.50 per month
Telephone - 25% of the total bill, excluding long distance calls
Wireless Telephone - 10% of the first \$30
Emergency 911 - \$2.85 per line
Water - 25% of the first \$22.50
Cox Cable - 7% of entire bill, excluding charge for remote control

Utilities - Business

Electric - \$2.87 + .017933 on first 537 kWhs monthly + .006330 on remaining kWhs
Natural Gas - \$3.225 + .167821 on first 70 CCF + .161552 on CCF in excess of 70 CCF and up to 430 CCF + .15363 on all remaining CCF not to exceed \$500
Telephone - 25% of service to building excluding instrument and switchboard
Wireless Telephone - 10% of the first \$30
Water - 25% of the first \$75 plus 15% of bill in excess of \$75

◆ Utilities - Manufacturer

Electric - \$1.38 + .004965 on first 3,625,100 kWhs + .004014 on all remaining kWhs not to exceed \$53,000 per month. Manufacturers located in an Urban Enterprise Zone shall be taxed at the rate of \$1.38 + .006192 on kWhs delivered monthly, not to exceed \$10,440 per month.
Natural Gas - \$3.225 + .167821 on first 70 CCF + .161552 on CCF in excess of 70 CCF and up to 430 CCF delivered monthly not to exceed \$500
Telephone - 25% of service to building excluding instrument and switchboard
Water - 25% of the first \$75 plus 15% of bill in excess of \$75

Franchise Tax and Public Service Corporation Taxes

Table 25a - Franchise Tax

Franchisee	FY 2002	FY 2003	FY 2004	Revenue Inc/Dec	% Change
Bank Franchise	\$ 1,297,599	\$ 1,014,374	\$ 1,012,454	\$ (1,920)	0%
Verizon and Cox Cable	3,399,944	2,945,471	3,105,494	160,023	5%
Telecommunications	53,816	315,409	296,261	(19,148)	-6%
TOTAL	\$ 4,751,359	\$ 4,275,254	\$ 4,414,209	\$ 138,955	3%

Chart 25 - Public Service Corporation Taxes

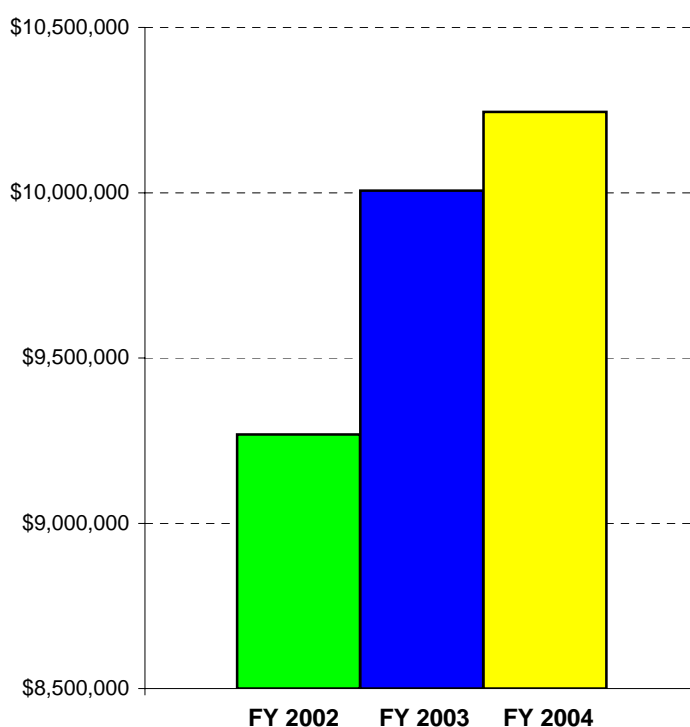


Table 25b - Public Service Corporation Real Property and Personal Property Taxes*

		Year			Inc/Dec	% Change
		FY 2002	FY 2003	FY 2004		
Real Property	Assessments	692,706,068	707,757,961	720,234,501	12,476,540	2%
	Tax	9,697,885	9,908,612	10,083,283	174,671	2%
Personal Property	Assessments	2,279,960	2,449,182	4,035,796	1,586,614	65%
	Tax	91,198	97,967	161,432	63,465	65%
Total	Assessments	694,986,028	710,207,143	724,270,297	14,063,154	2%
	Tax	9,789,083	10,006,579	10,244,715	238,136	2%

*All property of Public Service Corporations is taxed at a rate of \$1.40 per hundred for real property and \$4.00 per hundred for personal property as applicable (automobiles and trucks).

Utility Tax

Chart 26 - Utility Tax by percentage of total revenue

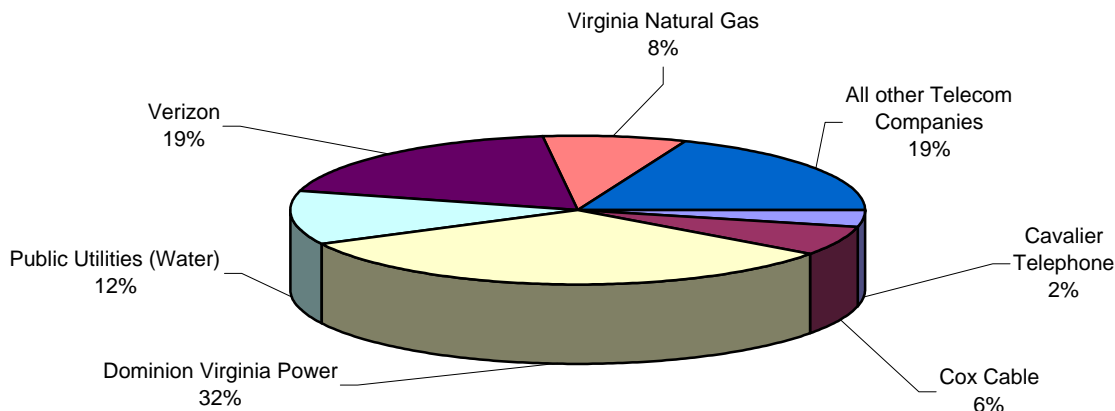


Table 26a - Utility Tax Revenue

Utility	FY 2002	FY 2003	FY 2004	Inc/ Dec	% Change
Cavalier Telephone	\$ 874,875	\$ 1,335,037	\$ 1,359,818	\$ 24,781	2%
Cox Cable	2,030,525	2,249,852	2,414,917	165,065	7%
Dominion Virginia Power	12,136,064	12,430,115	12,420,500	(9,615)	-0.1%
Public Utilities (Water)	4,648,907	4,187,950	4,417,099	229,149	5%
Verizon	11,439,344	8,803,029	7,214,497	(1,588,532)	-18%
Virginia Natural Gas	2,731,313	3,147,369	3,094,368	(53,001)	-2%
All other Telecom Companies	3,047,588	5,556,540	7,206,802	1,650,262	30%
Total	\$ 36,908,616	\$ 37,709,892	\$ 38,128,001	\$ 418,109	1%

Table 26b - 911 Tax

Utility	FY 2002	FY 2003	FY 2004	Inc/ Dec	% Change
Cavalier	233,679	378,009	421,646	\$ 43,637	12%
Verizon	2,337,315	2,769,177	2,165,936	\$ (603,241)	-22%
All Other Telecom Companies	414,384	632,182	1,388,089	\$ 755,907	120%
Total	\$ 2,985,378	\$ 3,779,368	\$ 3,975,671	\$ 196,303	5%

Table 26c - Consumption Tax

Utility	FY 2002	FY 2003	FY 2004	Inc/ Dec	% Change
Dominion Virginia Power	\$ 589,370	\$ 603,136	\$ 634,552	\$ 31,416	5%
Virginia Natural Gas	116,133	178,274	141,100	\$ (37,174)	-21%
Total	\$ 705,503	\$ 781,410	\$ 775,652	\$ (5,758)	-1%

Section
6

Audit Team

Paul Crepeau, Team Leader

Phone: 441-2784 email: paul.crepeau@norfolk.gov

Audit Team Duties

- ◆ Ensure compliance with state and city taxes, laws, ordinances and fees
- ◆ Evaluate, appraise, and compare all businesses' licenses and their level of compliance regularly
- ◆ Conduct manufacturing determination visits

In - Depth Assessments

Chart 28 - Comparison of In-Depth Assessments and Amount Collected by year

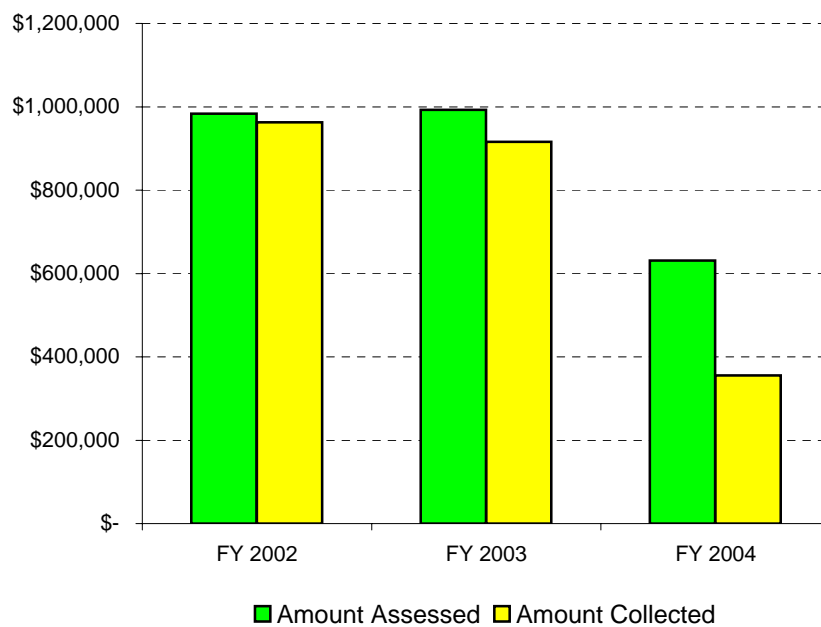


Table 28 - Revenue collected from in-depth assessments

	FY 2002	FY 2003	FY 2004
Amount Assessed	\$983,596	\$992,728	\$632,156
Amount Collected	\$962,478	\$915,892	\$355,377

Note: Annual fluctuations between "Amount Assessed" & "Amount Collected" reflect timing differences between the audit completion and the collection of taxes assessed.

Section
7

State Income Tax Team

Robert K. Mislan, Team Leader

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State Income Tax Team Duties

- ◆ Process Individual Income Tax Returns including
 - Accelerated Refund Returns
 - Refund, Tax Due, and Fiduciary Returns
 - Estimated Tax Declarations and Payments
 - Prior Year and Amended Tax Returns
- ◆ Provide State Tax Return Filing Assistance including
 - Return Preparation and Filing Assistance
 - Furnishing Instructional Speakers for Tax Seminars and Meetings
 - Resolution of Taxpayer Conflicts with the Department of Taxation
- ◆ State income taxes must be filed with the local Commissioner of the Revenue on or before May 1st of each year

State Income Tax

Table 30a - State Income Tax Processing by Category

	FY 2002	FY 2003	FY 2004	Number Inc/ Dec	% Change
Accelerated Refunds	15,575	10,716	6,276	(4,440)	-41%
Regular Refunds	19,059	11,855	12,437	582	5%
I-File	12	5,187	11,005	5,818	112%
Tax Due	8,626	7,274	6,967	(307)	-4%
Estimated Taxes	3,196	2,888	2,670	(218)	-8%
Amended & Prior Year Returns	3,350	4,064	3,597	(467)	-11%
Totals	49,818	41,984	42,952	968	2%

Table 30b - Taxpayer assistance statistics

	FY 2002	FY 2003	FY 2004	Number Inc/ Dec	% Change
Customer Visits for Filing Assistance	6,679	6,614	5,114	(1,500)	-23%
Telephone Calls Seeking Assistance	15,617	12,094	11,650	(444)	-4%
Total Taxpayer Assistance	22,296	18,708	16,764	(1,944)	-10%

Quicker refund processing by the State Tax Department reduced the number of telephone calls we received this year from residents seeking information concerning their refund check.

Table 30c - Special Program to identify tax returns where taxpayers failed to take advantage of a tax saving deduction and/or subtraction. We assist taxpayer to file an amended return.

	FY 2003	FY 2004
Special Program Amended Returns Filed	254	87
Additional Refunds to Taxpayer	\$65,163	\$23,633

Table 30d - Taxpayer dollar amounts processed

	FY 2002	FY 2003	FY 2004	Number Inc/ Dec	% Change
Individual Income Tax Due Assessed	\$ 4,094,434	\$ 3,884,706	\$ 4,148,837	\$ 264,131	7%
Estimated Income Tax Assessed	\$ 2,523,458	\$ 2,304,202	\$ 2,543,876	\$ 239,674	10%
Total Dollars Processed	\$ 6,617,892	\$ 6,188,908	\$ 6,692,713	\$ 503,805	8%

Section
8

Tax Compliance Team

Sandra Pitchford, Team Leader

Phone: 441-2208 email: sandra.pitchford@norfolk.gov

Tax Compliance Team Duties

- ◆ Enforce compliance for business license, business personal property taxes, food and beverage tax, lodging tax, and admissions tax, as well as city vehicle stickers.
- ◆ Enforce business tangible property filing for taxation
- ◆ Ensure proper taxation on personal property including vehicles, boats, mobile homes, aircraft and yard sales
- ◆ Conduct taxpayer inquiry investigations
- ◆ Serve as ambassadors for the office of the Commissioner of the Revenue throughout the city while performing daily job functions, as well as serving on community committees and attending community meetings as the liaison between the citizens and this office
- ◆ Answering questions, addressing citizen/taxpayer concerns and assisting with interdepartmental referrals regarding a variety of issues

Tax Compliance Team Summary

Table 32a - Tax Compliance activities by category

Activities	FY 2002	FY 2003	FY 2004	Inc/ Dec	% Change
Visits / Contacts (including Delinquent Business Licenses and new Business Discovery)	16,048	12,642	9,250	(3,392)	-27%
Decal Tickets Issued	247	8	127	119	1488%
Telephone Contacts	13,844	16,184	15,118	(1,066)	-7%
Cases Completed	434	404	533	129	32%
New Cases Generated	493	459	360	(99)	-22%
Paid Delinquent Business Licenses	1,762	1,551	1,806	255	16%
Monthly Meal Tax Delinquents	287	331	438	107	32%
Meal Tax - 10 Day Notice	262	330	252	(78)	-24%
Total Investigative Activities	33,377	31,909	27,884	(4,025)	-13%

Table 32b - Tax Compliance activities by amount

Activities	FY 2002	FY 2003	FY 2004	Inc/ Dec	% Change
Delinquent Business Licenses - Paid	\$ 1,498,377	\$ 839,835	1,505,558	\$ 665,723	79%
Inquiry Visits	225,640	200,314	\$ 219,767	19,453	10%
Decal Tickets	12,480	400	6,550	6,150	1538%
Monthly Meal Tax Delinquents - Paid	287,578	394,344	527,981	133,637	34%
Meal Tax - 10 Day Notice - Paid	338,978	548,307	421,981	(126,326)	-23%
Total	\$ 2,363,053	\$ 1,983,200	\$ 2,681,837	\$ 698,637	35%

Brief Description of Activities

Visits/Contacts - contact made by us to taxpayers either in person or by telephone

Inquiries -includes input from taxpayers, other agencies, and in - house discovery, which could result in establishing new business license accounts

Telephone Contacts - incoming and outgoing calls to taxpayers

Decal Tickets Issued - includes tickets issued for violations of vehicle and boat decals

Case Completed - all cases finalized, including cases where investigations have been completed and proper business license accounts have been established if required

New Cases - includes new cases generated for that period from citizen calls, in-house inquiries or other means resulting in an investigator initiating a call or visit

Monthly Meal Tax Delinquents - notice given to businesses that are less than 1 month late remitting Meal Tax

Meal Tax - 10 day Notice - letter sent to businesses by the Business Tax Team for Meal Tax that is more than 1 month late

Section
9

Senior Citizens Real Estate Tax Relief

Carolyn Lawrence, Team Leader

Phone: 441-1502 email: carolyn.lawrence@norfolk.gov

Senior Citizens Real Estate Tax Relief Team Duties

- ◆ Determine eligibility for real estate tax relief based on the following basic requirements:
 - (1) Must be at least 65 years of age or totally and permanently disabled.
 - (2) Must live in the property to be exempted.
 - (3) Combined income of owners and all relatives living in home cannot exceed \$34,450 per year.
 - (4) Net worth, exclusive of the home, cannot exceed \$100,000.
- ◆ The exemption is granted on an annual basis and a new application must be filed by June 1 each year.

Senior Citizens Real Estate Tax Relief

Chart 34a - Dollar amount of Tax Relief

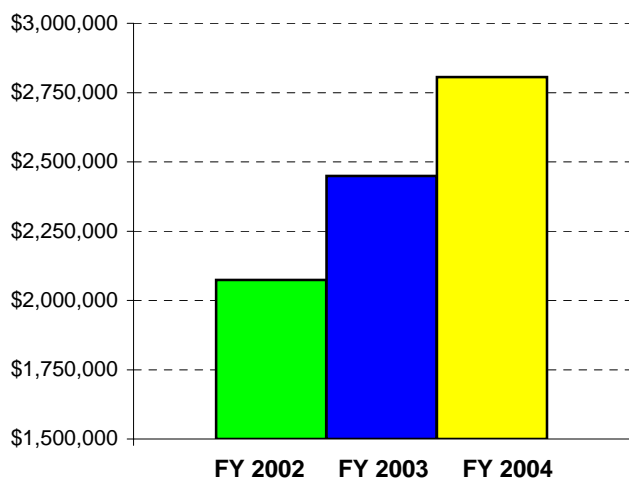


Chart 34b - Number of Homeowners Qualified for Relief by Year

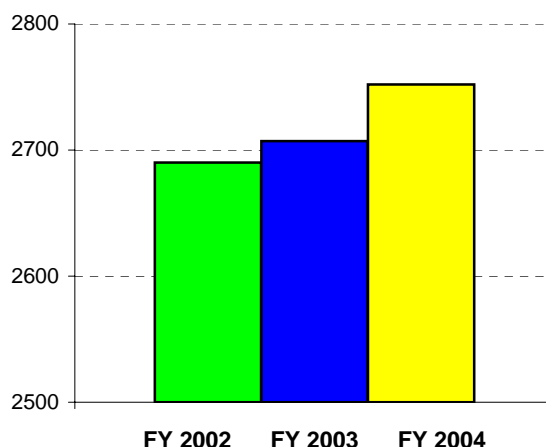


Table 34a - Senior Citizens Real Estate Tax Relief

	Year			Dollar Inc/ Dec	% Change
	FY 2002	FY 2003	FY 2004		
Accounts	2690	2707	2752	45	2%
Amount	\$2,073,774	\$2,448,713	\$2,805,832	\$357,119	15%

Table 34b - Real Estate Tax Relief by percentage of exemption

Exemption	FY 2002	FY 2003	FY 2004
100%	1460	1835	1648
90%	348	333	288
80%	158	270	265
70%	150	165	196
60%	138	39	111
All other	436	65	244
Total	2690	2707	2752

Norfolk City Council modified the Real Estate Tax Relief qualification requirements effective 7/1/02.

Table 34c - Statistical Information

	FY 2002	FY 2003	FY 2004
Households on Disability	375	265	305
Senior Citizen Households	2315	2442	2447
New Households Added	130	125	672
Households Removed from Program	256	416	166

Table 34d - Households removed from program

Reasons	FY 2004
Sale of Property	34
Death	31
No Response	68
Other	15
Income Became Too High	18
Total	166

Section

10

Revenue Recap by Classification

Table 35 - Recapitulation of revenue by classification (City Taxes Only)

CLASSIFICATION	FY 2002	FY 2003	FY 2004	INC/ DEC	% CHNGE
Admissions	\$ 3,888,231	\$ 4,155,632	\$ 4,472,441	\$ 316,809	8%
Aircraft	334,362	372,815	504,279	131,464	35%
Boats - Pleasure Craft	4,793	5,105	5,162	57	1%
Boats - Commercial Vessels	776,339	517,427	520,263	2,836	1%
Boat Decal Sales	79,670	80,106	81,372	1,266	2%
Business License	18,814,552	18,771,668	20,187,445	1,415,777	8%
Cigarette Taxes	4,088,387	4,126,702	6,933,692	2,806,990	68%
Consumption Tax	705,504	781,410	775,652	(5,758)	-1%
Food and Beverage	19,282,010	22,967,094	25,504,255	2,537,161	11%
Franchise Taxes	4,751,359	4,275,254	4,414,209	138,955	3%
Furniture & Fixtures	14,697,866	15,058,959	15,842,462	783,503	5%
In-Depth Assessments	962,478	915,892	355,377	(560,515)	-61%
Lodging Taxes	4,760,373	6,071,506	6,612,810	541,304	9%
Machinery & Tools	6,659,816	6,806,088	6,955,569	149,481	2%
Mobile Homes	22,066	18,559	18,758	199	1%
Omitted Assessments	452,631	951,030	1,173,284	222,254	23%
Passenger Car Daily Rental	2,543,497	2,819,947	3,046,037	226,090	8%
Public Service Corporation	9,789,083	10,006,579	10,244,715	238,136	2%
Residential Parking Decals	20,083	23,122	22,492	(630)	-3%
Short Term Rental	172,928	181,474	207,426	25,952	14%
Tangible Personal Property	28,921,505	29,887,610	34,252,811	4,365,201	15%
Utility Taxes	36,908,616	37,709,892	38,128,001	418,109	1%
Yard/ Garage Sale Permits	11,785	10,460	12,960	2,500	24%
911 - Fee	2,985,378	3,779,368	3,975,671	196,303	5%
Total	\$ 161,633,312	\$ 170,293,699	\$ 184,247,143	\$ 13,953,444	8%

Appendix A - Tables

<u>Name</u>	<u>Table Number</u>	<u>Page Number</u>
911 Tax	26b	27
Admissions Tax	20	21
Aircraft Personal Property Tax	9b	10
Boats (Pleasure Craft & Commercial) Personal Property Tax	8a & 8b	9
Boat Decal Sales	12	13
Business Personal Property Tax	16	17
Business Licenses by Classification	18	19
Business License Summary	17a	18
Business License Terminations	17b	18
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